

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Operation Samahan, Inc. (“OS”) 2835B Highland Ave National City, CA 91950 San Diego County</p> <p>Project Site: 2835-2841 Highland Ave, National City, CA (San Diego County)</p> <p>Facility Type: Community Clinic-Federally Qualified Health Center Look-Alike</p> <p>Eligibility: A qualified health facility pursuant to Government Code Section 15432(d)(6)</p> <p>Prior HELP II Borrower: Yes, 2008 (Current loan balance is \$397,449 and payments are current)</p>	<p>Amount Requested: \$350,000</p> <p>Requested Loan Term: 15-year fixed</p> <p>Authority Meeting Date: January 26, 2012</p> <p>Resolution Number: HII-268</p>
---	--

Background: OS was founded and incorporated as a nonprofit California corporation in 1972 to help alleviate the health and social problems of the minority and economically disadvantaged communities of San Diego County. OS operates three medical clinics, two in San Diego and one in Mira Mesa, and a social services program. Services include primary health care including dental care, family planning information and education, bicultural counseling and language interpretation.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing \$350,000 loan with a 9% fixed interest rate. The loan is held by a private party (former owners) that was used to purchase a 7,100 square foot facility for \$615,000 in 2001 that houses three (3) medical exam rooms; three (3) dental operatories; six (6) administrative offices; and a clinical suite. This refinancing will result in an annual savings of approximately \$21,000 due to the lower interest rate.

Financing Structure:

- 15-year loan.
- 180 equal monthly payments of approximately \$2,417 (annual payments of about \$29,004).
- Corporate gross revenue pledge.
- First lien position on property located 2835-2841 Highland Ave, National City, CA (San Diego County).
- A current appraisal of the collateralized property acceptable to the Authority.
- Verification of the borrower funds of approximately \$10,000 to pay-off the financing costs.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 35%).

Financial Overview: OS’ income statement appears to exhibit improving operating results during the review period. OS’ balance sheet also appears solid with a strong debt service coverage ratio and growing net assets. The proforma debt service coverage ratio for the proposed HELP II loan appears to be a strong 10.18x.

Estimated Sources of Funds:

HELP II Loan	\$ 350,000
Borrower Funds	10,000
Total Estimated Sources	<u>\$ 360,000</u>

Estimated Uses of Funds:

Refinance existing loan	\$ 350,000
Financing costs	10,000
Total Estimated Uses	<u>\$ 360,000</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*

Title Company: Chicago Title Company; **Private Lenders:** Vincent and Carmelina Maruca

Staff Recommendation: Staff recommends approval of Resolution Number HII-268 for Operation Samahan, Inc. in an amount not to exceed \$350,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. PURPOSE OF FINANCING: OS seeks to refinance the outstanding balance of an existing real estate loan with a 9% fixed rate to improve its cash. According to OS' management, this refinancing will result in approximately \$21,000 in annual savings that will be used to expand OS' programs and services for its growing low-income, uninsured and underinsured patients.

Refinance Existing Loan **\$350,000**

The proposed loan seeks to refinance an approximate \$350,000 loan. The original loan was \$492,000. The loan bears a fixed annual interest rate of 9% for a 20-year term and was provided by a private party (Vincent and Carmelina Maruca-former owners) on January 1, 2002 to purchase a 7,100 square-foot property located at 2835-2841 Highland Avenue for \$615,000. This facility has three (3) medical exam rooms; three (3) dental operatories; six (6) administrative offices; and a clinical suite.

The HELP II loan will be secured by a first lien position on the above-mentioned property which, according to OS' management, has an estimated current fair market value of \$1 million. The proposed HELP II loan results in an estimated loan to value ratio of approximately 35%. After approval and prior to closing the loan, OS will submit a current appraisal of the collateralized property to confirm the anticipated loan to value ratio set forth herein.

OS has an existing HELP II loan with an outstanding balance of approximately \$400,000. Upon approval, OS will have a combined outstanding balance of no more than \$750,000 in HELP II loans.

Financing Costs **10,000**

Authority Fees	\$4,375
Title and Escrow	3,125
Appraisal	<u>2,500</u>

Estimated Uses of Funds **\$ 360,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Operation Samahan Statement of Activities

	For the Year Ended June 30,		
	2011	2010	2009
Revenue & Support			
Support:			
Contributions	\$ 11,084	\$ 39,166	\$ 28,509
Fund raising	16,342	15,300	1,570
Total support:	27,426	54,466	30,079
Revenue:			
Interest revenue	3,677	76	5,020
Total unrestricted support and revenue	31,103	54,542	35,099
Net assets released from restrictions	6,067,760	5,828,033	4,712,115
Total support and revenue	6,098,863	5,882,575	4,747,214
Expenses			
Program services:			
Salary, wages & benefits	3,434,084	3,068,533	2,773,866
Consulting	574,265	414,544	259,070
Clinic supplies	190,446	184,017	94,706
Rent	150,204	141,197	176,955
Depreciation	98,960	97,415	71,081
Outside lab services	85,321	71,611	41,143
Telephone	71,991	63,712	59,309
Outside services - Other	68,065	24,399	29,338
Computer accessories	63,822	8,335	57,331
Insurance	62,363	63,497	58,769
Equipment lease	61,725	53,256	33,623
Utilities	51,646	45,822	48,807
Interest	46,654	51,139	58,621
Office supplies	32,708	39,732	34,486
Bad debt	11,472	508,041	249,269
Other	206,934	243,093	246,049
Total program expenses	5,210,660	5,078,343	4,292,423
Changes in unrestricted net assets	888,203	804,232	454,791
Change in temporarily restricted net assets	-	(224,122)	-
Net Assets Beginning of Year	2,001,847	1,421,737	966,946
Net Assets End of Year	\$ 2,890,050	\$ 2,001,847	\$ 1,421,737

Payor Source	Percent
Third party billing*	80%
Grants and contracts	13
Self-pay	5
Fundraising	2
	<hr/>
	100%

* marks enhanced reimbursement from Medi-Cal, Medicare, state and local patient fees.

[INTENTIONALLY LEFT BLANK]

**Operation Samahan
Statement of Financial Position**

	As of June 30,		
	2011	2010	2009
Assets:			
Current assets:			
Cash	\$ 1,525,464	\$ 740,711	\$ 259,729
Contract receivables	487,923	567,649	617,391
Prepaid expenses	32,215	52,621	8,915
Other assets	35,077	25,016	33,135
Total current assets:	<u>2,080,679</u>	<u>1,385,997</u>	<u>919,170</u>
Land & building	225,416	234,140	234,140
Office equipment	198,548	272,189	275,284
Medical equipment	296,145	375,492	387,768
Building expansion project	938,973	938,973	960,957
Building improvements/fixtures	19,776	19,776	19,776
Office complex	739,775	742,830	623,817
Leasehold improvements	61,063	-	59,594
Depreciation	(734,930)	(833,863)	(733,685)
Total property and equipment	<u>1,744,766</u>	<u>1,749,537</u>	<u>1,827,651</u>
Total assets	<u>\$ 3,825,445</u>	<u>\$ 3,135,534</u>	<u>\$ 2,746,821</u>
Liabilities and Net Assets:			
Accounts payable	\$ 5,061	\$ 42,154	\$ 137,444
Accrued vacation	115,300	115,538	114,719
Deferred revenue	-	90,000	114,500
Mortgage loan payable, current Portion	81,165	75,927	71,840
Current liabilities	<u>201,526</u>	<u>323,619</u>	<u>438,503</u>
Mortgage loan payable, less current portion	733,869	810,068	886,581
Total liabilities	<u>935,395</u>	<u>1,133,687</u>	<u>1,325,084</u>
Net assets:	<u>2,890,050</u>	<u>2,001,847</u>	<u>1,421,737</u>
Total liabilities and unrestricted net assets	<u>\$ 3,825,445</u>	<u>\$ 3,135,534</u>	<u>\$ 2,746,821</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June, 2011</u>			
Debt service coverage (x)	10.18	8.43	7.75	5.78
Debt/Unrestricted Net Assets (x)	0.28	0.28	0.44	0.67
Margin (%)		14.56	13.67	9.58
Current Ratio (x)		10.32	4.28	2.10

(a) Recalculates 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

OS' income statement appears to exhibit improving operating results during the review period.

During the review period, OS appears to exhibit improving operating margins of 9.58% in FY 2009, 13.67% in FY 2010, and 14.56% in FY 2011. OS' management attributes the improved margins to the increase of patient visits associated with the FY 2009 clinic expansion. The operating expenses have increased by 21% during the review period compared to a 28% increase in operating revenue during the same period. According to OS management, OS is continuing to monitor expenses to contain costs given the current economic climate.

Particular Facts to Note:

- According to OS' management, most of the funds it receives from Medi-Cal, Medicare, grants and contracts are kept on reserve to act as a safety net during times when the state or federal funding may be delayed. Therefore, once the needed funding is released, it shows on the financial statement as a substantial amount under the category of "net assets released under restrictions."
- Total net assets increased from \$1.4 million in FY 2009 to approximately \$2.9 million in FY 2011, an increase of 107%. OS attributes this increase to OS' expansion of services (OS opened three clinics during the review period), OS' classification as a Federally Qualified Health Center Look-Alike, OS' successful refinancing with CHFFA, and finally, OS' successful procurement of grants that enabled OS to purchase and upgrade its equipment as well as expand its programs.

Financial Discussion – Statement of Financial Position (Balance Sheet)

OS' balance sheet also appears solid with a strong debt service coverage ratio and growing net assets.

Important Facts to Note:

- OS appears to be highly liquid with approximately \$1.5 million in cash, averaging 112 days cash on hand
- OS has a minimal debt to unrestricted assets of 0.28x, below the Authority's target ratio of less than 1.0x.
- OS' balance sheet appears to be improving with total assets growing from \$2.7 million to \$3.8 million, an approximate 40% increase which OS attributes to the clinic expansion in FY 2009.
- For FY 2011, OS' debt service coverage ratio appears strong at 8.43x. With this financing, OS' proforma debt service coverage ratio appears to be improve to 10.18x, indicating that OS should be capable of meeting its new debt obligations.

EXHIBIT 1

**Clients Served/ (Patient Visits)
Fiscal Year Ended June 30**

	2009	2010	2011
Totals	25,108 / (50,216)	33,108 / (66,035)	38,102 / (76,200)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2011*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Private Loan by Former Owners, 2001 (Vincent and Carmelina Maruca)	\$ 429,000	\$ 359,881	\$ -
CHFFA HELP II Loan, 2008	500,000	424,319	400,000
CHFFA HELP II Loan, 2003**	250,000	30,834	-
CHFFA HELP II Loan, 2012		<u> </u>	<u>350,000</u>
Total		<u>\$ 815,034</u>	<u>\$ 750,000</u>

* Includes current portion of long-term debt.

** Indicates that it was paid off recently

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

OS was founded and incorporated as a nonprofit California corporation in 1972 to help alleviate the health and social problems of the minority and economically disadvantaged communities of San Diego County. OS operates three medical clinics, two in San Diego and one Mira Mesa, and social services program. Services include primary health care including dental care, family planning information and education, bicultural counseling, and language interpretation.

Funding provided from United Way, contracts with federal, state and county agencies, public and private donations and client fees enable the Agency to serve over 5,000 patients and clients per month, fees are based on the patients' ability to pay.

Licensure, Certification and Accreditation

OS is a community clinic licensed by the State of California Department of Public Health.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

Resolution Number HII-268

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring certain equipment or constructing certain capital improvements (the “Project”) as authorized by the Act;

WHEREAS, **Operation Samahan Inc.** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the financing of the Project, and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, final approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower, in the amount of **\$350,000** for a term not to exceed **15 years** to refinance existing loans as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year loan;
2. 180 equal monthly payments of approximately \$2,417 (annual payments of about \$29,004);
3. Corporate gross revenue pledge.
4. First lien position on property located 2835-2841 Highland Ave, National City, CA (San Diego County);
5. Verification of the borrower funds of approximately \$10,000 to pay-off the financing costs;
6. Loan to value ratio not to exceed 95% (estimated loan to value ratio is 35%); and
7. A current appraisal of the collateralized property acceptable to the Authority.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan approved pursuant to Section 1 hereof, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower in Section 1. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. The Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 6. This resolution expires one year from the date approved.

Date Approved: _____